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ABSTRACT

How to best finance education is a matter of major concern, both because of the cost of education, and because of its relationship to national progress and security. Confusion about educational funding is not necessary if the major questions that are of special concern to all citizens are identified. This document outlines basic elements for understanding present purposes and methods of public school finance. Subjects include: (1) Why Do We Provide Schools? (2) Why School Costs Have Grown; (3) Is Enough Being Invested in Education? (4) Should Our Investment in Education Be Increased? (5) Can the Economy Finance an Increased Investment in Education? (6) The Local School Budget; (7) State Support of Education; (8) Local Support of Education; and (9) Federal Support of Education. The narrative on each subject is accompanied by a graph or chart to aid in explanation. Tables listing current expenditure per pupil by state in 1988 and school revenues by source (federal, state, local) in 1988 are appended. (LAP)

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What Everyone Should Know About

FINANCING OUR SCHOOLS

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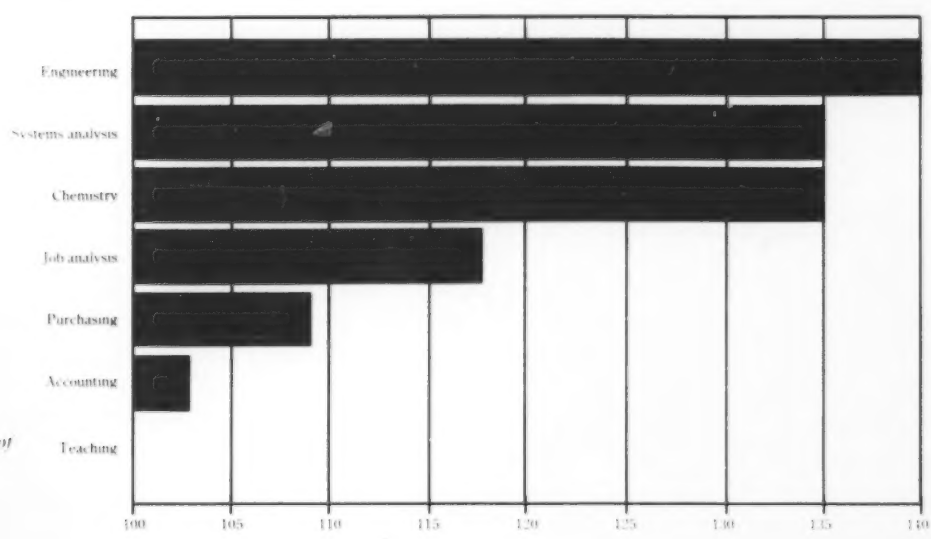
Figure 10

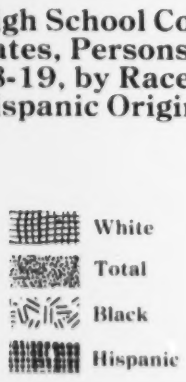
Indexed Professional Salaries: 1980
Average for Nonsupervisory Jobs
(Teaching = 100)

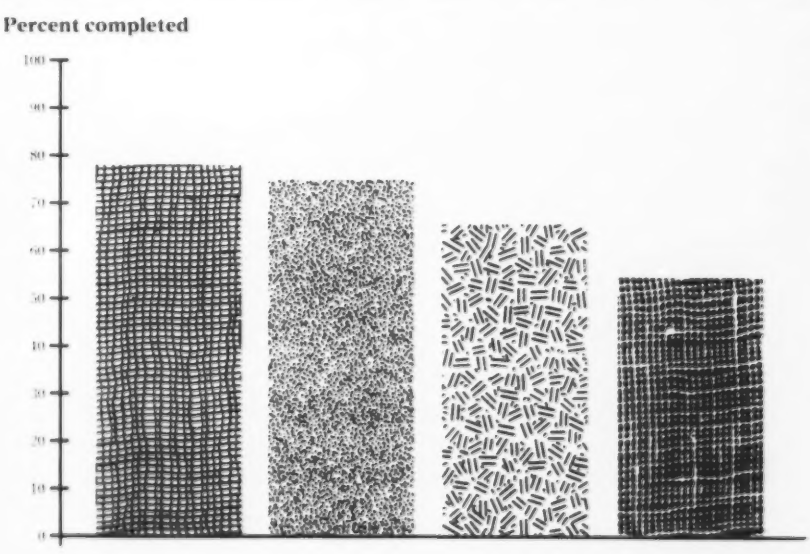


SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, *National Survey of Professional, Administrative, Technical, and Clerical Pay: Private Nonservice Industries*, 1988.

Figure 11

High School Completion Rates, Persons Aged 18-19, by Race and Hispanic Origin, 1986





NOTE: Hispanics may be of any race.
SOURCE: Bureau of the Census, *Current Population Reports*.

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INTRODUCTION

Education is big business. Sometimes it is said to be the biggest in the United States. This is true, if one is thinking of education as an investment to develop our human resources, upon which all else depends. It is not true if one has in mind school revenues as compared with total tax revenues.

The total revenues devoted to elementary and secondary schools amount to less than 20 cents out of each dollar of combined federal, state, and local tax collections.

The problem of how to finance education is a matter of major concern, both because of the cost of education and because of its vital relationship to national progress and security.

In taking a close look at a subject as complex and broad in scope as the financing of public education, one can easily get lost in the technical details. Such confusion is not necessary if we identify the major questions that are of special concern to all citizens. The technical details of public finance and school finance can be left largely to the specialist. Our purpose here is to outline the basic elements for understanding present purposes and methods of public school finance.

WHY DO WE PROVIDE SCHOOLS?

Free public elementary and secondary education in the United States represents an investment in people and an investment in America. Most Americans believe this to be a sound investment and currently support their public schools through annual expenditures of nearly $200 billion. This investment in education today will largely determine the shape of America tomorrow. Among the more important dividends for Americans from investment in education are those relating to the U.S. standard of living, employment and earnings, workforce training, equality of opportunity, and gains for society.

U.S. Standard of Living. A nation's standard of living is as much dependent upon education as it is upon a nation's natural wealth. In the United States the application of an educated citizenry to this country's natural wealth has produced a standard of living that places it at the top among industrialized nations. Figure 1 shows two measures of this economic yardstick. One measure is consumer spending per person, in inflation adjusted dollars. The other measure is output, commonly expressed as gross national product (GNP) per person, also in inflation adjusted dollars.

Both measures show increases over the past 30 years. Real consumer spending climbed from about $5,000 to $10,300 over the period while GNP per person increased from about $9,200 to $15,800. International comparisons made by the Organization for Economic Cooperation and Development (OECD) show the United States with the highest standard of living based upon its gross domestic product (GDP), the standard for intercountry comparisons. For 1986 OECD reported a GDP per person of $17,324 in the United States, $16,105 in Canada, $12,741 in West Germany, and $12,339 in Japan.

Employment and Earnings. Education provides gainful employment for the nation's labor force. The greater the education, the greater the gain. Figure 2 shows unemployment rates for persons over 16 years old, by years of school completed. Persons with lower levels of educational attainment were far more likely to be unemployed than those with higher levels. The 1987 unemployment rate for those with one to three years of high school was more than double the rate of those completing four years: 14.8 percent compared to 7.2 percent.

Figure 1

Measures of the U.S. Living Standard

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, various issues.

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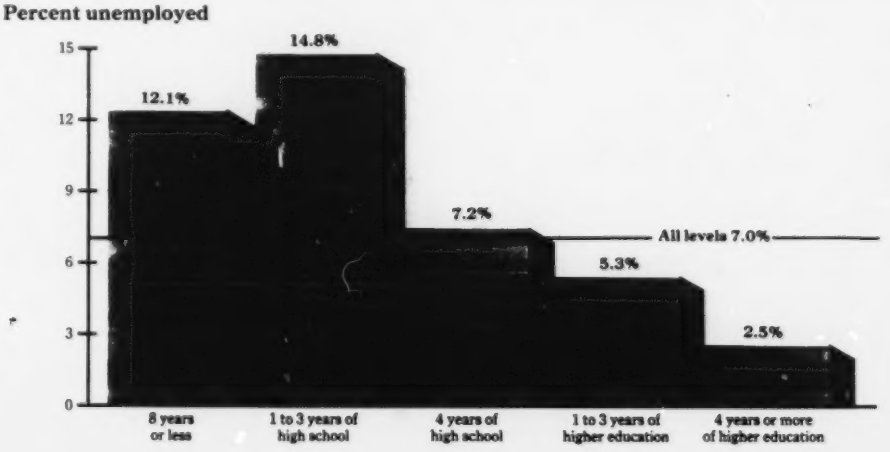
Figure 2

Unemployment Rates for Persons 16 Years Old and Over, by Years of School Completed: March 1987



SOURCE: U.S. Department of Labor Statistics, Office of Unemployment Statistics, *Educational Attainment of Workers, March 1987.*

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Figure 3

Median Annual Income of Full-Time Workers 25 Years Old and Over, by Years of School Completed and Sex 1986

Men

Women

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Money Income and Poverty Status of Families and Persons in the United States*, Series P-60, No. 167.

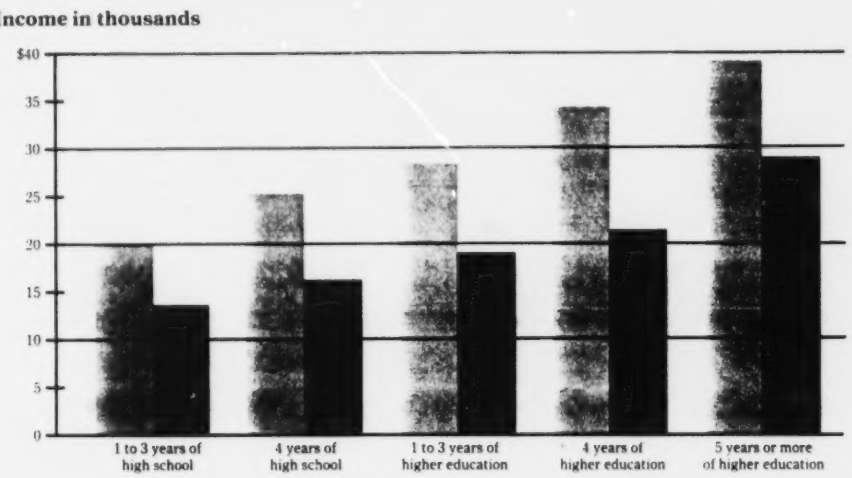

Figure 3 relates years of school completed to income. For both men and women, income follows education. In terms of dollars, the progression of income from less than a high school education to five or more years of higher education represents approximately a doubling of annual income.

Trained Work Force. Occupations requiring special skills and training are increasing while unskilled and untrained labor is less in demand. The 62,000,000 managerial, professional, technical, sales, and administrative support jobs shown in Table 1 constituted over 56 percent of total employment in 1987. Table 1 also shows the distribution of jobs among persons with different levels of education. Occupations with the least number of jobs are those filled by the largest proportion of persons having less than a high school education.

Equality of Opportunity. Public education is a great force for equality of opportunity. Historically, it provided the means through which millions of immigrants realized economic opportunity in America. Today, equal educational opportunity is being extended to millions who were previously neglected. Table 2 displays the extent to which special education programs have grown in number of children served, by condition. Between 1977 and 1987 nearly 700,000 children were added to these programs. Special education pupils now account for over 10 percent of total enrollment.

Gains for Society. Education provides the means through which knowledge is transmitted to a new generation. Only if they are well informed will subsequent generations be capable of functioning in their community, state, nation, and world. The problems and challenges at each of these levels demand a well-educated public that can work wisely and act creatively to move toward solutions. For these reasons state constitutions establish public school systems, public tax monies are used to support school systems, and states have compulsory attendance laws to accomplish their charge.

Table 1

Occupation of Employed Persons 16 Years Old and Over, by Years of School Completed: March 1987

Occupation	Total employed, in thousands	Percentage distribution, by years of school completed						
		Total	Elementary school		High school		Higher education	
			Less than 8 years	8 years	1 to 3 years	4 years	1 to 3 years	4 years or more
1	2	3	4	5	6	7	8	9
All occupational groups	109,854	100.0	2.8	2.6	11.2	40.0	20.5	22.9
Managerial and professional speciality	27,591	100.0	0.3	0.5	2.3	17.3	19.1	60.5
Technical, sales, and administrative support	34,409	100.0	0.6	0.8	7.4	46.0	27.9	17.3
Service occupations	14,833	100.0	5.3	4.2	21.1	44.6	18.7	6.1
Precision production, craft, and repair	13,162	100.0	4.1	4.2	14.2	53.4	18.2	5.8
Operators, fabricators, and laborers	16,706	100.0	6.5	5.7	21.3	50.4	12.5	3.5
Farming, forestry, and fishing	3,152	100.0	13.2	8.4	18.1	40.3	12.6	7.3

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Office of Employment and Unemployment Statistics, *Educational Attainment of Workers*, March 1987.

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Table 2

Children 3 to 21 Years Old Served in Special Education Programs, by Type of Handicap: 1976–77 to 1986–87

Type of handicap	1976–77	1977–78	1978–79	1979–80	1980–81	1981–82	1982–83	1983–84	1984–85	1985–86	1986–87
1	2	3	4	5	6	7	8	9	10	11	12
	Number served, in thousands										
All conditions	3,692	3,751	3,889	4,005	4,142	4,198	4,255	4,298	4,315	4,317	4,374
Learning disabled	796	964	1,130	1,276	1,462	1,622	1,741	1,806	1,832	1,862	1,914
Speech impaired	1,302	1,223	1,214	1,186	1,168	1,135	1,131	1,128	1,126	1,125	1,136
Mentally retarded	959	933	901	869	829	786	757	727	694	660	643
Seriously emotionally disturbed	283	288	300	329	346	339	352	361	372	375	383
Hard of hearing and deaf	87	85	85	80	79	75	73	72	69	66	65
Orthopedically handicapped	87	87	70	66	58	58	57	56	56	57	57
Other health impaired	141	135	105	106	98	79	50	53	68	57	52
Visually handicapped	38	35	32	31	31	29	28	29	28	27	26
Multihandicapped	—	—	50	60	68	71	63	65	69	86	97
Deaf-blind	—	—	2	2	3	2	2	2	2	2	2

SOURCE: U.S. Department of Education, Office of Special Education and Rehabilitative Services, *Eighth Annual Report to Congress on the Implementation of the Education of the Handicapped Act*, 1986.

WHY SCHOOL COSTS HAVE GROWN

Expenditures for public elementary and secondary schools, exclusive of the cost of new school buildings, rose from $71.5 billion in 1977-78 to $156.2 billion in 1987-88, an increase of $84.7 billion. This translated into per pupil expenditures of $1,781 in 1977-78 and $4,209 in 1987-88 (Figure 4). Three factors—inflation, increases in teacher quality, and decreases in the pupil/teacher ratio—account for nearly all of this increased investment.

Inflation. The loss in buying power of the dollar, because of a rise in the prices of goods and services purchased by state and local governments, amounted to 80 percent between 1978 and 1988 (Figure 5). Included in this period were three years of double-digit consumer price inflation, from 1979 through 1981. Because of this, school expenditures had to be increased by $84.7 billion to bring about an increase of $15.4 billion in purchasing power.

Quality of Teachers. Between 1976 and 1986 the academic background of America's teachers improved substantially. In 1976, 62 percent of teachers held a bachelor's degree and 37 percent a master's degree. By 1986, 48 percent held a bachelor's degree and 51 percent a master's degree. In addition to this training, teachers were accumulating classroom experience. The median for years of teaching experience increased from 8 to 15 between 1978 and 1988.

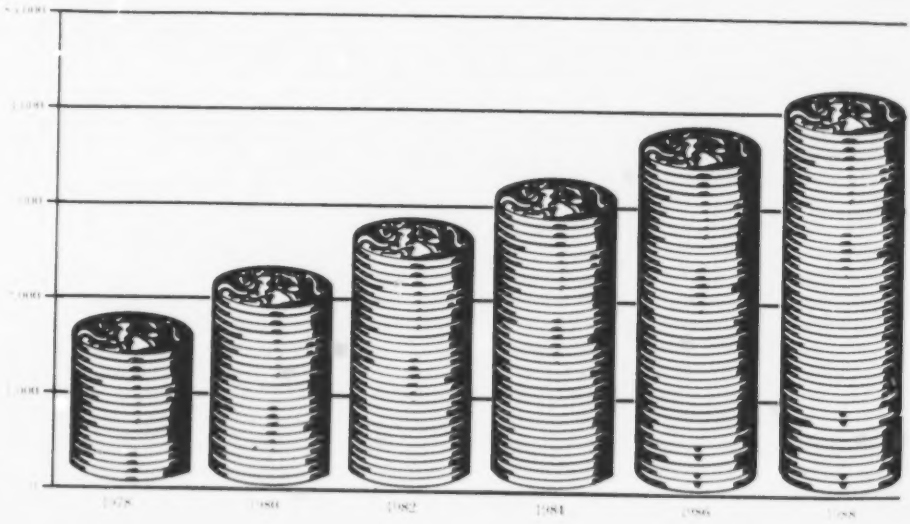
This combination of increased teacher training and experience contributed to a doubling of funds for salaries, the major item in school budgets. Nevertheless, the $32 billion added to teacher salaries was muted in impact by inflation that reduced its purchasing power to approximately $17 billion. Figure 6 shows average salaries paid teachers in current and inflation-adjusted dollars from 1978 through 1988. The net increase in purchasing power was $1,032.

Although the absolute number of dollars has increased, the relative percent of school budgets allocated for classroom teacher salaries has decreased from 50 to 43 percent. Rapid increases in other portions of school budgets caused this decline of 13 percentage points. Figure 7 traces this trend from 1970 through 1988.

Pupil/Teacher Ratio. Decreasing the pupil/teacher ratio adds to the cost of schools. Overall, this ratio was reduced from 20:1 in 1978 to 17.6:1 in 1988. For special education only, the ratio declined from 20.7:1 to 15.8:1. These improvements in the educational environment were made possible through combining an 8 percent reduction in

Figure 4

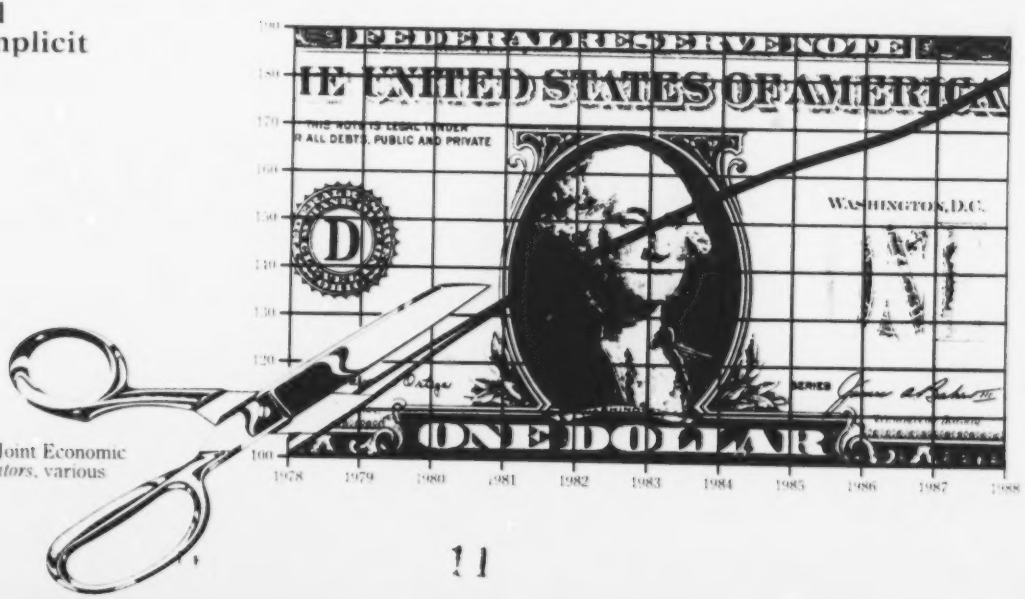
Expenditures per Pupil
Average Daily Attendance (ADA)



SOURCE: National Education Association Data Bank.

Figure 5

State and Local Government Implicit Price Deflator (1978=100)



SOURCE: U.S. Congress, Joint Economic Committee, *Economic Indicators*, various issues.

enrollment with an addition of nearly 86,000 classroom teachers during the decade.

Capital Outlay Costs. In addition to the day-to-day expenses of operating schools, there are large expenditures associated with the acquisition of building sites, and the construction and equipping of school buildings. Money for these expenses is usually obtained through the sale of bonds requiring periodic repayments of principal and interest.

From 1978 to 1988 capital outlay expenditures plus interest payments increased from $7.4 billion to $13.1 billion, a 77 percent growth (Figure 8). These figures reflect the need to replace or refurbish obsolete schools, the building of new schools in response to population movements, and the rising costs of land and construction.

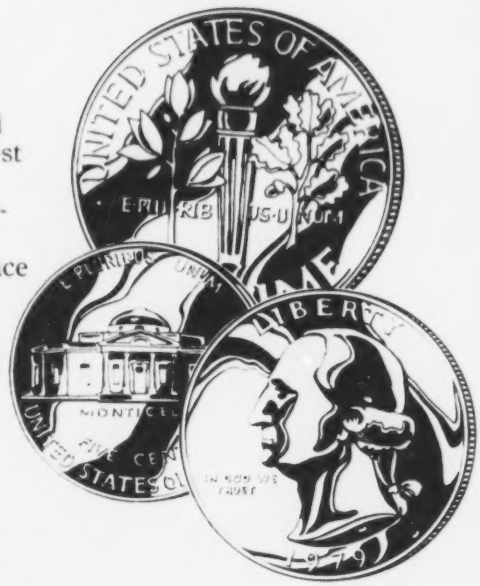
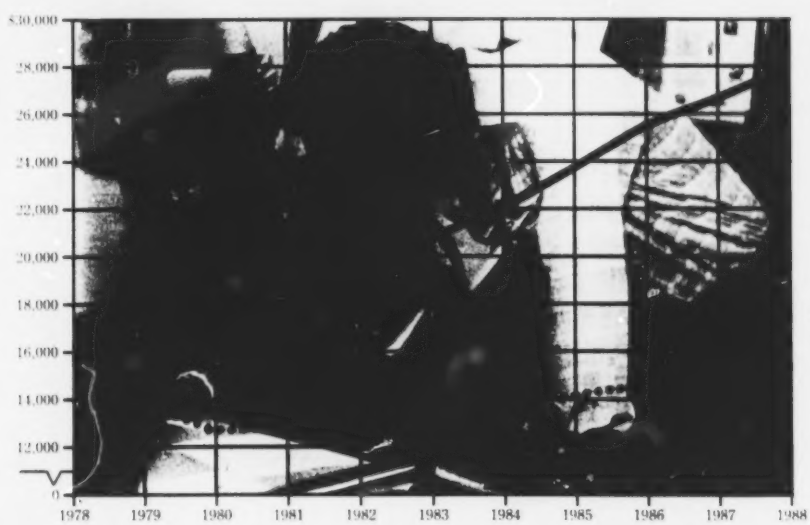


Figure 6

Average Salary Paid Teachers



SOURCE: National Education Association Data Bank.

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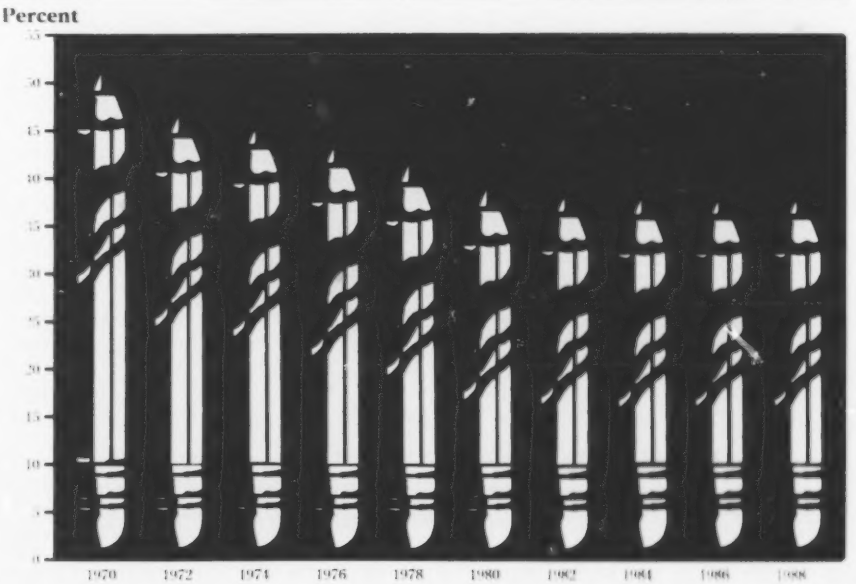
Figure 7

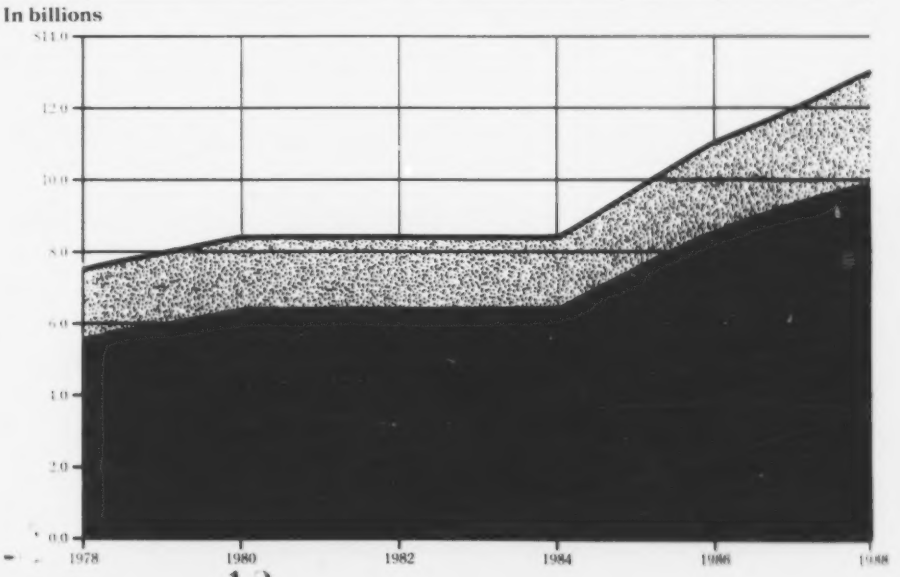
Teacher Salaries as a Percent of Current Expenditures



SOURCE: National Education Association Data Bank.

Figure 8

Capital Outlay and Interest on Debt



SOURCE: National Education Association Data Bank.

10 IS ENOUGH BEING INVESTED IN EDUCATION?

Is enough being invested in education to secure the returns we should expect from our schools? The following discussions on reports on education, teachers, and achievement and curriculum speak to the issue.

Reports On Education. In its much publicized report *A Nation At Risk,* the National Commission on Excellence in Education concluded in 1983 that "the educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a Nation and a people." The report aroused the nation and was instrumental in causing states and many professional organizations to study and report on various aspects of education. Reforms recommended in these reports provide evidence of unmet needs in education.

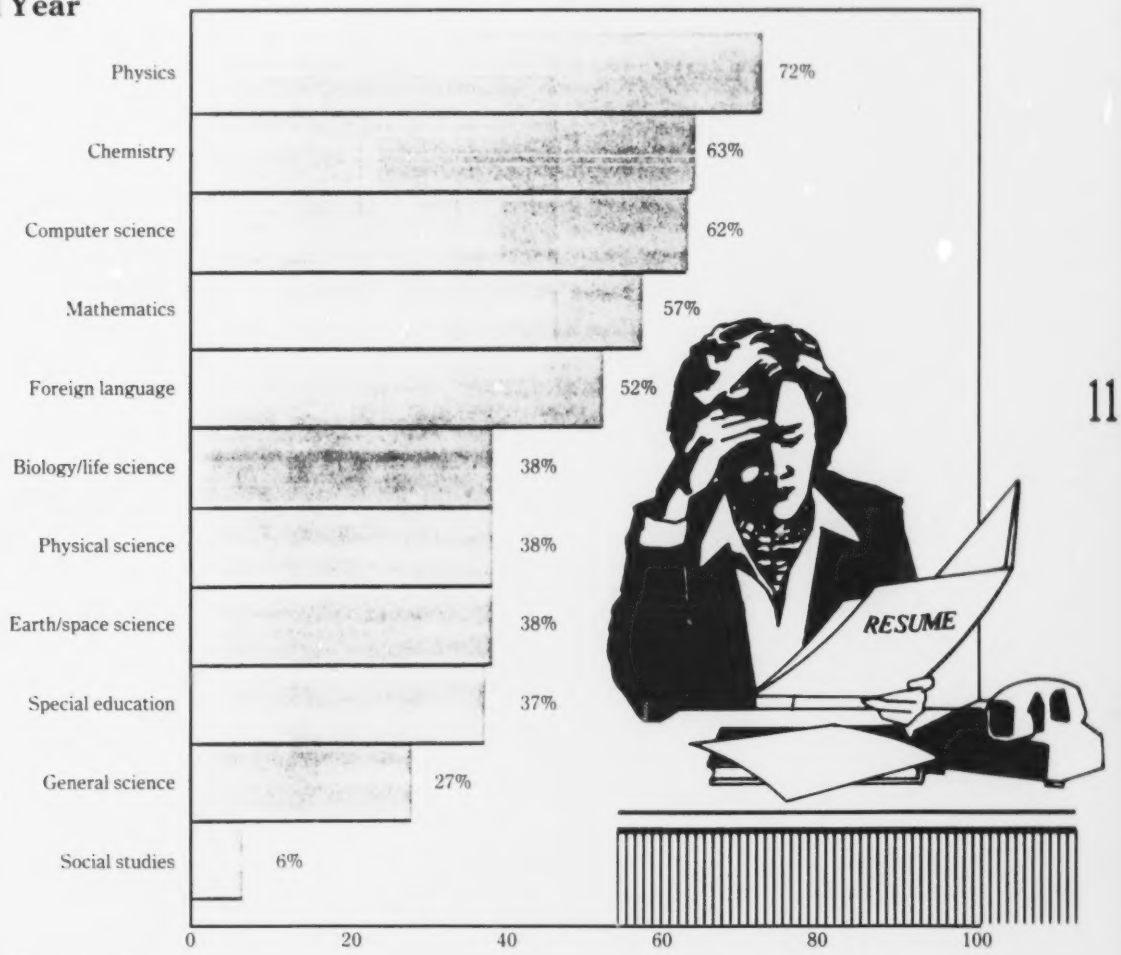
Teachers. Central to reform is an adequately prepared and compensated teaching staff. This theme was repeated in report upon report. Figure 9 shows the percent of high school principals reporting difficulty recruiting qualified teachers in 1986. Competition for personnel, especially for those with scientific or mathematical training, remains keen because of the financial rewards available to such people outside of teaching. The relative salary levels for teaching and several other occupations requiring comparable preparation are displayed in Figure 10. Trained engineers, systems analysts, and chemists earn from 35 to 40 percent more through private industrial employment than through teaching.

Achievement and Curriculum. Establishing and improving standards for promotion and graduation, developing a core curriculum, facilitating the mastery of language, utilizing computers, and extending the school day or year are all reform recommendations aimed at students. One indicator of the need for improvement, displayed in Figure 11, is high school completion rates. About 25 percent have not completed high school by age 19. Some will finish at a later date, but many will not. They must then try to live in a society that considers high school graduation a necessity.

High school graduation requirements vary by state, and in some states by school district. The National Commission on Excellence in Education recommended that all states establish certain levels of achievement in the fields of mathematics, science, English, and social studies. These are shown in Figure 12 alongside national averages. All areas require additional resources to meet the suggested standards.

Figure 9

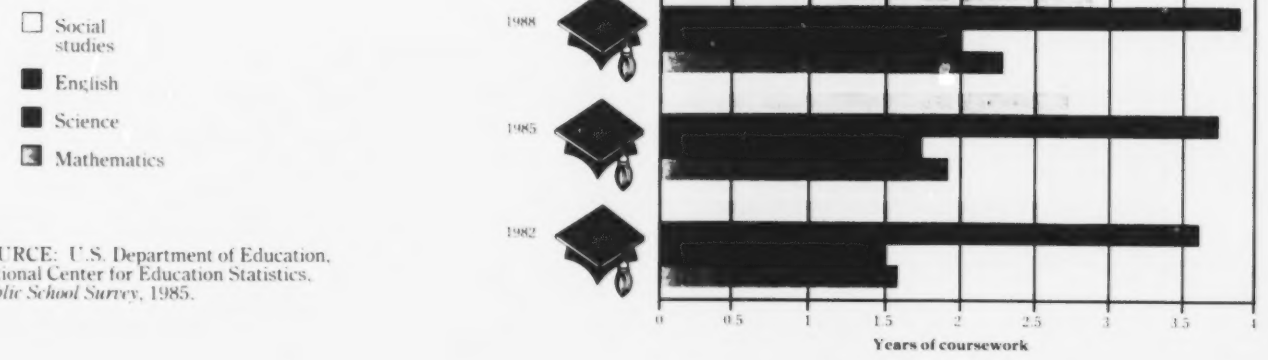
Percent of High School Principals Who Reported Difficulty in Hiring Fully Qualified Applicants for Teaching Vacancies, by Subject: School Year Ending 1986



SOURCE: National Science Foundation, National Survey of Science and Mathematics Education, 1985-86.

Figure 12

Average Graduation Requirements and National Commission on Excellence in Education Recommendations



SOURCE: U.S. Department of Education, National Center for Education Statistics, *Public School Survey*, 1985.

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11 SHOULD OUR INVESTMENT IN EDUCATION BE INCREASED?

By projecting educational statistics, it is possible to forecast increases in expenditures for public schools. Such projections and forecasts are made periodically by the U.S. Department of Education. Following are the department's most recent estimates of enrollment increases, population mobility, classroom teacher increases, and per pupil expenditures.

Future Enrollment Increases. Between 1988 and 1997, public school enrollments are projected to increase by more than 3.5 million. This will bring total enrollment close to 44 million, second only to the peak year of 1972 when the total neared 46 million. Figure 13 displays the year-to-year trend for both elementary and secondary pupils. The chart shows the progression of the last of the "baby boom echo" children through elementary school and on to high school.

Mobility of Population. Enrollment increases will not occur uniformly across the country. In response to economic fortunes, people move from one state to another as well as to different locales within states. Therefore, enrollment in some states will increase while enrollment in others will experience a net decrease. These circumstances require additional expenditures as new schools must be constructed to accommodate these population shifts.

Classroom Teacher Increases. To serve the anticipated increases in enrollment, and to accomplish some education reform objectives, additional teachers will be required. Forecasts through the year 1997 are currently available. Figure 14 shows the total number of classroom teachers needed based upon U.S. Department of Education midrange forecasts. Their figures anticipate the hiring of an additional 309,000 teachers by 1997. The pupil/teacher ratio would be reduced only fractionally according to this forecast. A significant reduction would require substantially more classroom teachers.

Expenditure Per Pupil. Current expenditure per pupil by state is listed in Appendix A. These expenditures will rise in response to efforts to improve schools. A five-year projection of the anticipated per pupil cost trend is presented in Figure 15. Both current dollars (actual expenditures) and constant dollars (inflation adjusted expenditures) are shown. In current dollars the cost per pupil is shown to increase by $1,626, or 38.5 percent. However, in constant dollars the increase amounts to $372, or 8.8 percent, the difference representing the cost of inflation. All told, an additional $70 billion will be needed to meet this current dollar projection for 1993.

Figure 13

Projected Annual Change in Enrollment

Elementary

Secondary

SOURCE: U.S. Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 1997–98*, 1988.

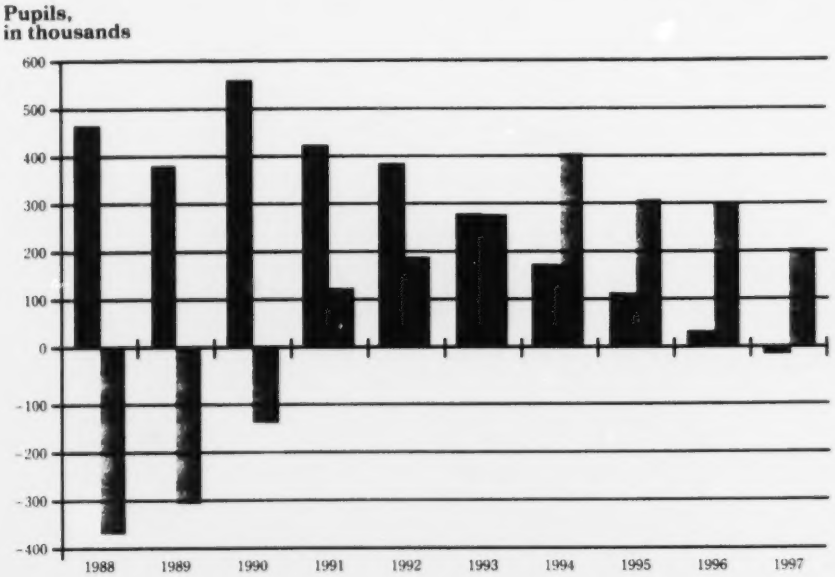


Figure 14

Projected Number of Classroom Teachers

Elementary

Secondary

SOURCE: U.S. Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 1997–98*, 1988.

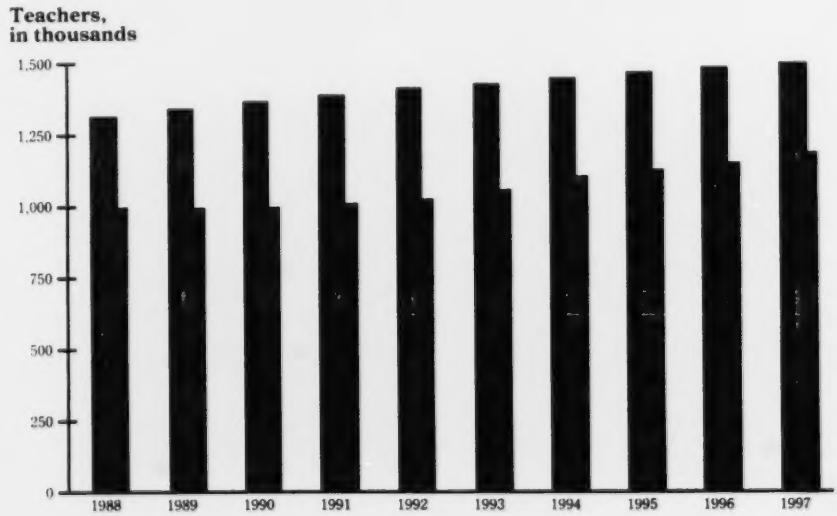
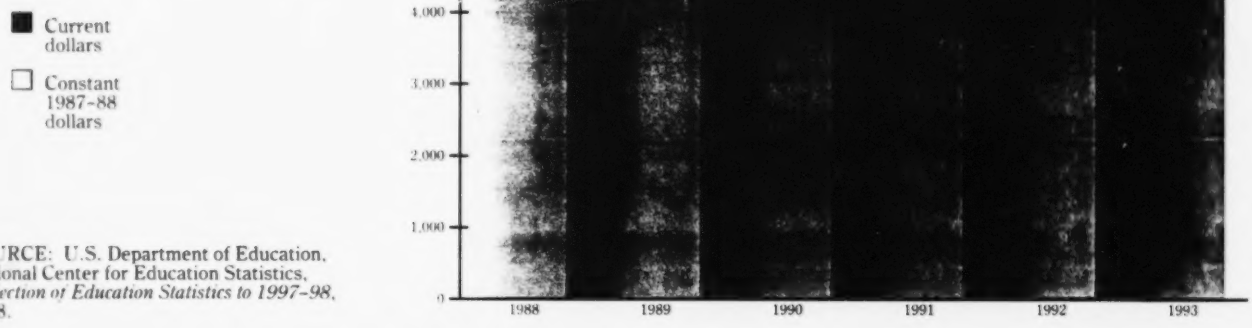


Figure 15

Expenditures per Pupil in ADA



SOURCE: U.S. Department of Education, National Center for Education Statistics, *Projection of Education Statistics to 1997–98*, 1988.

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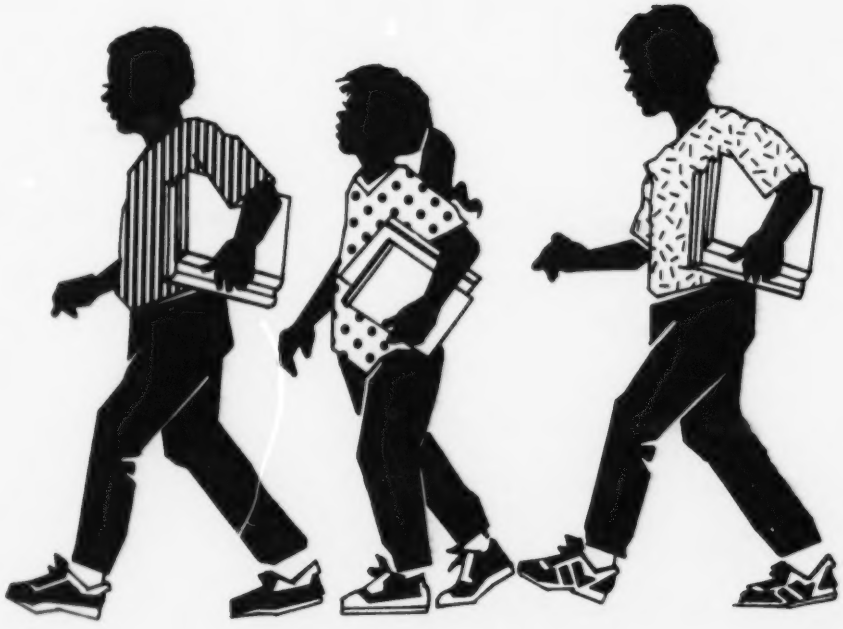


CAN THE ECONOMY FINANCE AN INCREASED INVESTMENT IN EDUCATION?

The cost of education has increased. All indications are that it will continue to do so. Can our economy meet this higher cost?

GNP: The Measure of Economic Growth. Gross national product is the value of all goods and services produced. Its growth reflects our nation's capacity to generate wealth. A portion of this wealth is transmitted to the government in the form of taxes that provide financial support of public services.

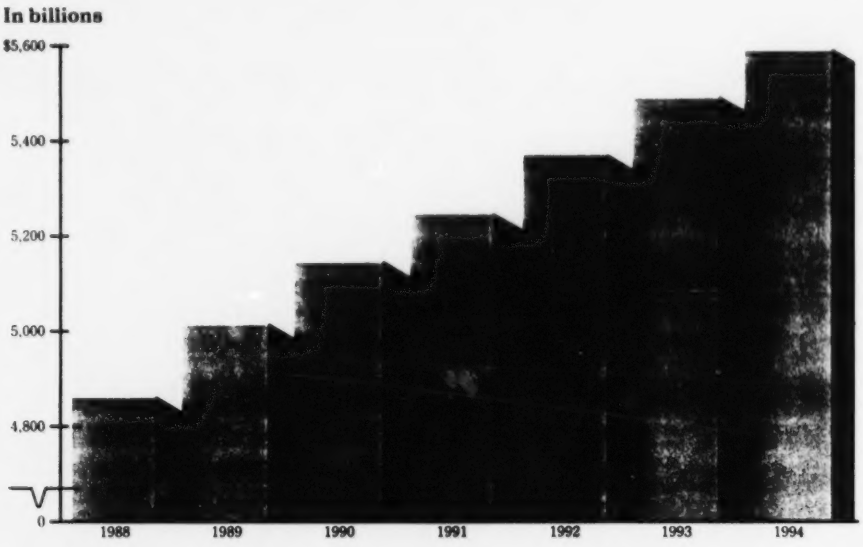
Figure 16 shows projections of the GNP through 1994. These forecasts indicate a constant dollar growth of more than $700 billion over the six-year period. Capturing just 4 percent of this added wealth for education would provide an increase equal to that experienced in the six years preceding 1988.

Comparisons with Other Nations. International statistics on expenditures for public education, including elementary, secondary, and higher education, are compiled in Figure 17. The United States falls within the range of 5 to 6 percent of gross national product along with the United Kingdom, Italy, and France. This is by no means an inordinate amount when we observe that six nations reported expenditures in excess of 6 percent of GNP and that only two spent less than 5 percent. With an economy as vast as that of the United States, each one-tenth of 1 percent increase in the commitment of national wealth to education equals about $5 billion.

Tax Dollars and Education Expenditures. Public schools are supported by federal, state, and local tax dollars. Currently, they receive 18 cents out of each dollar from the combined tax collections of all three levels (Figure 18). Since 1970 this commitment has been confined to a narrow range between 16 and 20 cents. In 1986, each additional penny channeled $8.5 billion to public schools. Therefore, with the redirection of just a few cents from each tax dollar many of the reforms recommended by various state and national studies of educational needs could be financed.

Figure 16

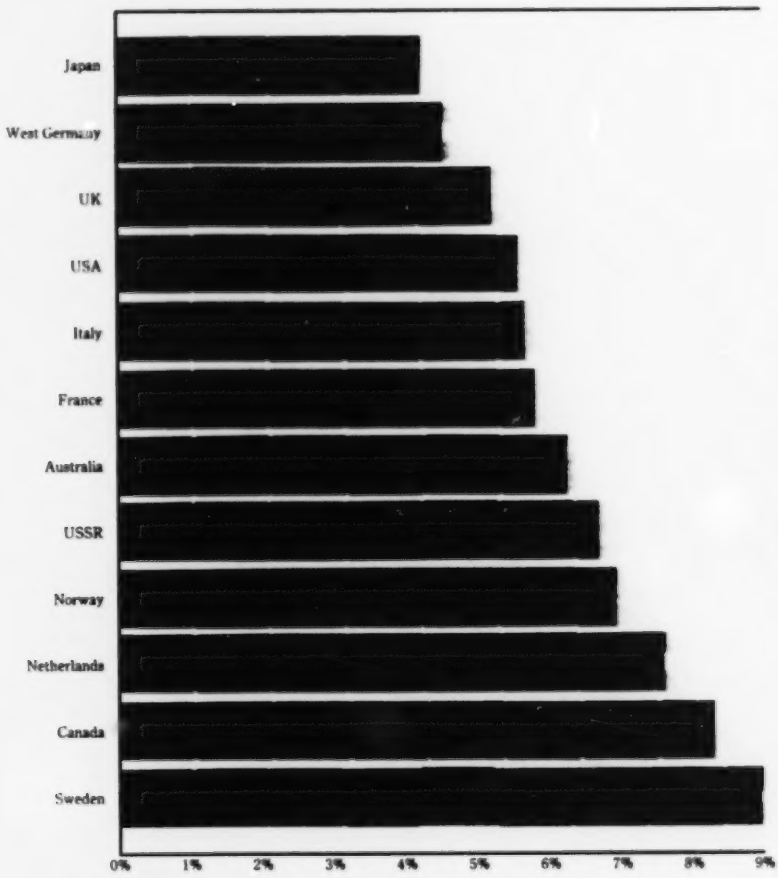
Projected Gross National Product
Constant 1988 dollars



SOURCE: U.S. Congress, Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1990–1994*, 1989.

Figure 17

Education Spending as a Percent of GNP: 1982



SOURCE: United Nations Educational, Scientific, and Cultural Organization, *Statistical Yearbook*, 1987.

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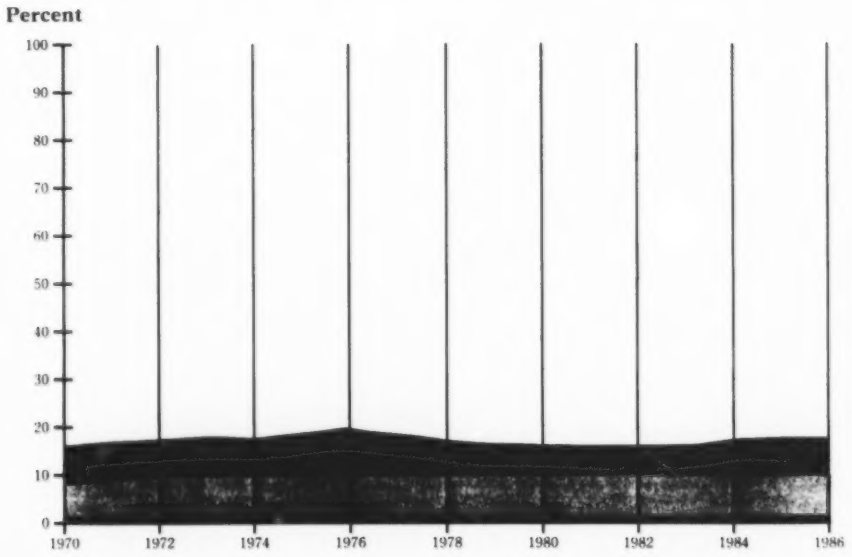
Figure 18

Public School Revenues as a Percent of Total Tax Collections



SOURCE: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism 1988 Edition, Volume II*, 1988. Based upon U.S. Census Bureau tape.

THE LOCAL SCHOOL BUDGET

Each community in the United States annually prepares a school budget that defines the school program, what it will cost, and how the money is to be raised. Although school districts vary in size and scope of program, there are several commonalities that they share:

Budget Accounts. Many school districts now use a set of budgetary accounts recommended by the National Center for Education Statistics of the U.S. Department of Education. Figure 19 summarizes those expenditure accounts. Within each of these accounts school budgets will list objects of expenditure, such as salaries, benefits, supplies, services, and capital outlay. By using similar accounts, districts are able to study trends over time and to make comparisons with other districts.

Budget Format. A commonly used format for presenting budget data is shown in Figure 20. For each item of expenditure within both the elementary and secondary instruction accounts, the budget shows actual expenditures for the second preceding year, budgeted and estimated expenditures for the preceding year, and the budget for the current year. This format provides a framework for analysis of expenditures and reveals changes in priorities.

Quality Budgets. To evaluate a budget and find out whether or not it will provide for quality schools, it is necessary to obtain answers to the following questions:

1. What class size will the budget provide?
2. Does the budget provide for up-to-date instructional materials?
3. Does the budget provide specialists to assist teachers in the improvement of instruction?
4. Does the budget provide for instructional programs for special groups such as the handicapped?
5. Does the budget provide for guidance counselors in all schools?
6. Does the budget provide for a salary schedule that will attract and hold the best available teachers?
7. Does the budget provide sufficient funds to maintain and repair the school buildings for appearance, safety, and effectiveness?
8. Does the budget provide for well-stocked libraries in all schools?
9. Does the budget provide for a full range of course offerings?
10. Does the budget provide for long-term needs of the district?

Figure 19

Common Budget Accounts

SOURCE: U.S. Department of Education, National Center for Education Statistics, *Financial Accounting for Local and State School Systems*, 1980.

Code		Description
1000		**Instruction**
	1100	Regular programs
	1200	Special programs
	1300	Adult programs
2000		**Support Services**
	2100	Students
	2200	Instructional staff
	2300	General administration
	2400	School administration
	2500	Business services
	2600	Operation and maintenance of plant
	2700	Student transportation
	2800	Central support
3000		**Food Service, Enterprise, and Community Services**
4000		**Facilities Acquisition and Construction**
5000		**Debt Service and Fund Transfers**

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Figure 20

Common Budget Format

SOURCE: National Education Association Data Bank.

Acct. Code	Object Code	Description	Actual 1985–86	Budget 1986–87	Estimate 1986–87	Budget 1987–88
1	2	3	4	5	6	7
1110		**Elementary Instruction**				
1110	100	Certified salaries	$3,072,059	$3,168,500	$3,201,161	$3,242,500
1110	150	Noncertified salaries	73,587	75,500	80,467	84,500
1110	200	Employee benefits	479,449	521,245	497,078	561,640
1110	400	Purchased services	5,796	6,000	3,936	7,000
1110	600	Supplies	217,149	235,900	221,692	264,780
1110	700	Capital outlay	114,711	62,800	48,390	39,900
		Total Elementary Inst.	$3,962,751	$4,069,945	$4,052,724	$4,199,420
1130		**Secondary Instruction**				
1130	100	Certified salaries	$1,662,460	$1,716,500	$1,694,295	$1,739,500
1130	150	Noncertified salaries	10,469	10,300	15,743	16,300
1130	200	Employee benefits	236,029	251,400	242,928	267,910
1130	400	Purchased services	15,476	20,350	14,314	23,350
1130	600	Supplies	128,030	167,060	163,365	163,087
1130	700	Capital outlay	48,648	58,800	51,490	53,250
		Total Secondary Inst.	$2,101,112	$2,224,410	$2,182,135	$2,263,397
		Total Regular Inst.	$6,063,863	$6,294,355	$6,234,859	$6,462,817

STATE SUPPORT OF EDUCATION

All state constitutions make education and its support a responsibility of the state legislature. To carry out this mandate, most states are required to finance a substantial portion of local education budgets. Nationally, this amounts to about one-half of school costs.

State Shares of School Support. States vary in the amount of financial support they provide to local school districts. Figure 21 shows the distribution of state shares for school year 1988. Although the range is great, nearly half of the states fall within the 40 to 60 percent range. Four states are above 69 percent and four are below 30 percent. In recent years there has been a trend toward larger state shares in an effort to achieve the two goals outlined in the following section.

State School Finance Goals. State financial support of local schools has two goals: adequacy and equity.

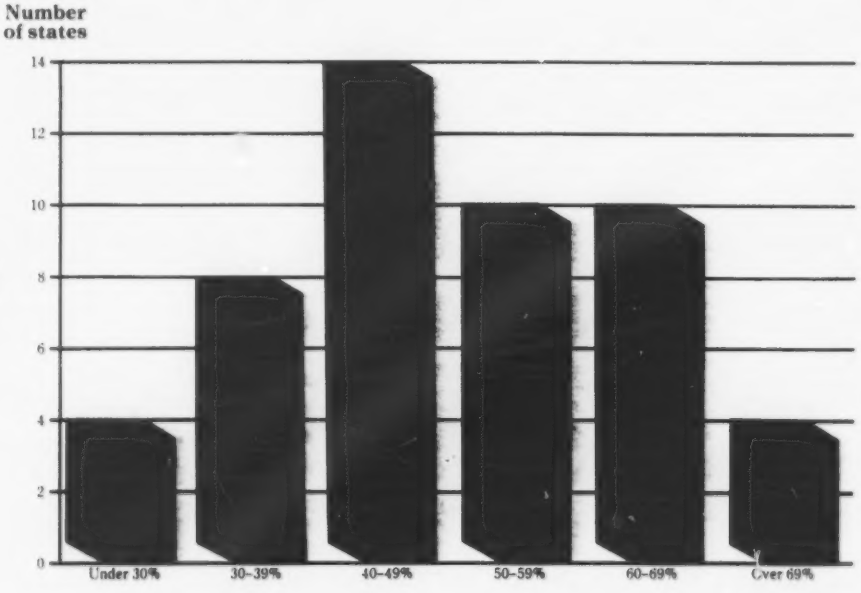
Adequacy may be defined as the point at which sufficient financial resources are available to provide an educational program equal to the abilities of each student. At a minimum, this requires a well-maintained classroom, a full range of course offerings, teachers certified in the subject areas, educational support services including libraries and guidance services, and adequate supplies and equipment.

Equity may be defined as the condition in which financial resources are distributed in a manner that does not favor one student over another, when balanced on the basis of need. This requires that states take into consideration the additional pupil costs associated, for example, with different grade levels, special education programs, and vocational education.

Interstate variations in dollars spent per pupil highlight the extent of the problem of achieving financial adequacy in education. During the 1989 school year, expenditures per pupil ranged from $2,574 to $7,571, a difference of $4,997, or nearly three to one. Cost differentials alone cannot account for this variation. Much of the difference must be attributed to quality. This three-to-one expenditure ratio has remained virtually unchanged during the past decade, meaning that there has been no progress toward securing adequate financial resources for all states. Reasons for this lack of progress include economic hardship in some states and state/local tax systems that do not take advantage of all major tax sources.

Figure 21

State Share of School Support: 1988



SOURCE: National Education Association Data Bank.

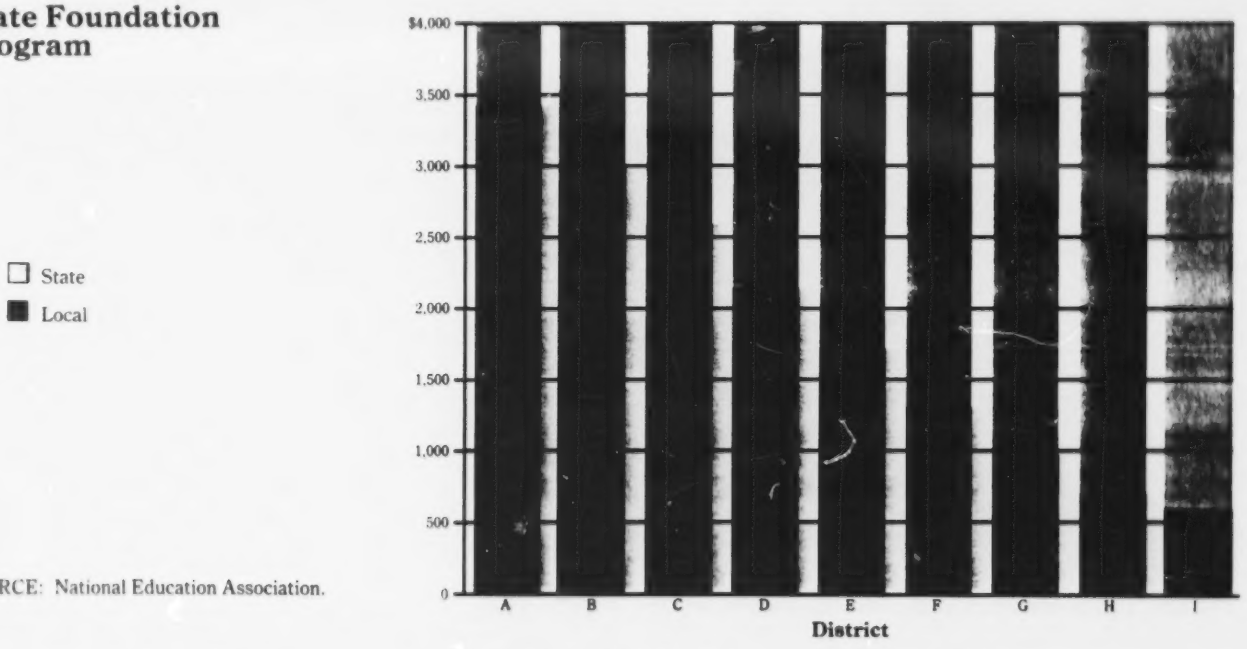
The problem of inadequate financial support is often compounded by inequitable distribution of resources. This problem comes into focus at the state level. Variations in expenditures per pupil within states are the consequence of unequal amounts of taxable property in school districts and state distribution systems that do not correct for this factor. An expenditure ratio differential of less than three to one was enough to convince the California Supreme Court in 1971 of the underlying inequity of the system, resulting in court-ordered reform of the school finance system. To correct the inequities in school finance, states have devised a number of methods for the distribution of state funds.

Distributing General State Aid. States employ a variety of means to distribute tax dollars to school districts. By far the most popular method is called a minimum foundation program. It works like this: First, the state determines a minimum amount of money to be spent per pupil in all districts throughout the state. Next, the local tax rate required to provide this minimum in the wealthiest school district is calculated. All districts are then required to tax at that rate. Finally, the state commits itself to make up the difference between the dollars raised locally through the mandated tax and the dollars required by the minimum foundation program.

Figure 22 illustrates how funds might be distributed under a minimum foundation program. A $4,000 foundation level has been established for all districts. In district "A," a wealthy district, the required local tax raises $3,400 per pupil and the state contributes $600. In district "I," a poor district, the local tax raises $600 per pupil and the state contributes $3,400. Each district thereby has the same resources available for its students.

Figure 22

State Foundation Program



SOURCE: National Education Association.

Currently, 30 states have minimum foundation programs. Other methods for distributing state funds include flat grants, whereby state support is determined by a measure of pupils; guarantee programs, whereby states guarantee an equal number of dollars for any given local tax levy; percentage equalizing grants, whereby states provide a percent of locally determined expenditure levels; and full state funding programs not requiring local contributions. Regardless of the method of distribution, the greater the state contribution, the greater the equality of dollars supporting each pupil's education.

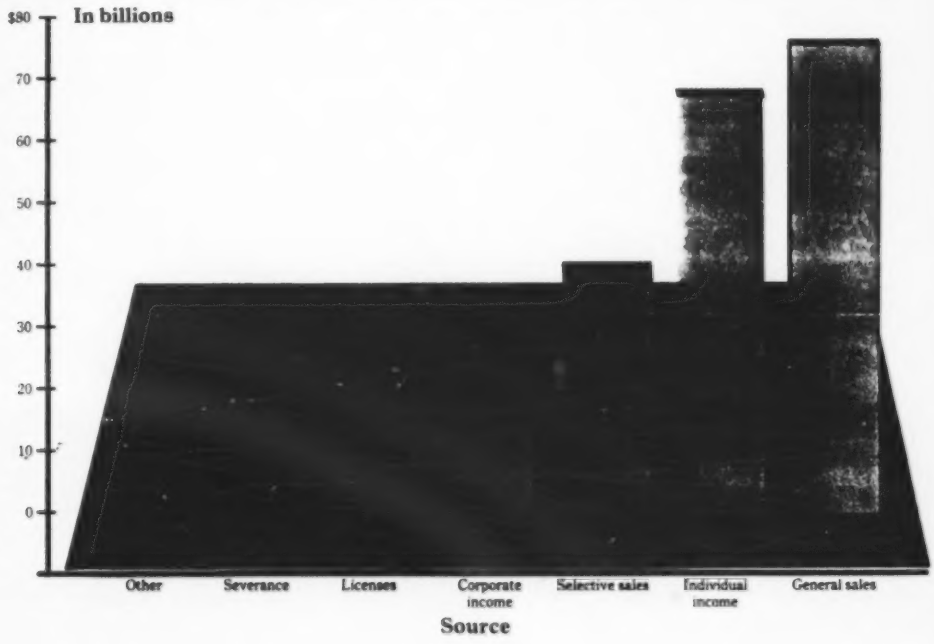
Categorical State Aid. In addition to the general purpose aid states distribute, some funds are allocated for special purposes. These monies are called categorical aids. Examples include transportation funds, vocational education funds, and special education funds. School districts receive these funds based not upon their wealth but upon meeting specific qualification criteria. For example, a district may be reimbursed for each student transported by school bus. States generally distribute between 20 and 30 percent of their funds through categorical programs.

Capital Outlay. States assist school district capital construction projects in several ways. Some states provide direct grants to districts for a portion of construction costs, with the balance being financed through a local bond sale. In other states a loan program may be available to school districts for capital construction. Still other states provide full funding of approved capital projects.

State Taxes. Unlike school districts, which are dependent on property taxes as a revenue source, states have access to a variety of tax sources. State tax collections by source for 1988 are illustrated in Figure 23. Most important is the general sales tax

Figure 23

State Tax Collections: 1988



SOURCE: U.S. Department of Commerce, Bureau of the Census, *State Government Tax Collections in 1988*, 1989.

that netted nearly $75 billion for 45 states. Next in importance is the individual income tax found in 41 states, followed by selective sales taxes such as those found in all states on gasoline, tobacco, and alcohol. Lesser sources include corporate income taxes, licenses, and severance taxes. All these funds help to support state government activities including education. About one-third of the general fund budget in most states goes to the support of local schools.

LOCAL SUPPORT OF EDUCATION

Local control of public schools is a uniquely American tradition. Nowhere else are communities given control over education as they are here. Over the years, this system of local control has introduced variety and experimentation into education, thereby producing changes and improvements. Success in one district is transplanted to others. Until the late 1970s local school districts also provided most of the money to operate schools. Figure 24 shows the sources of school revenues in 1988. As a result of reform in school finance and the demands for equity among districts, local funds are now second to state sources. Appendix B lists the sources of revenues for schools by state.

Property Taxes. Because public schools were considered a local function, it was natural that they be financed from local tax sources. School districts therefore obtained their share of school revenues almost exclusively from property taxes.

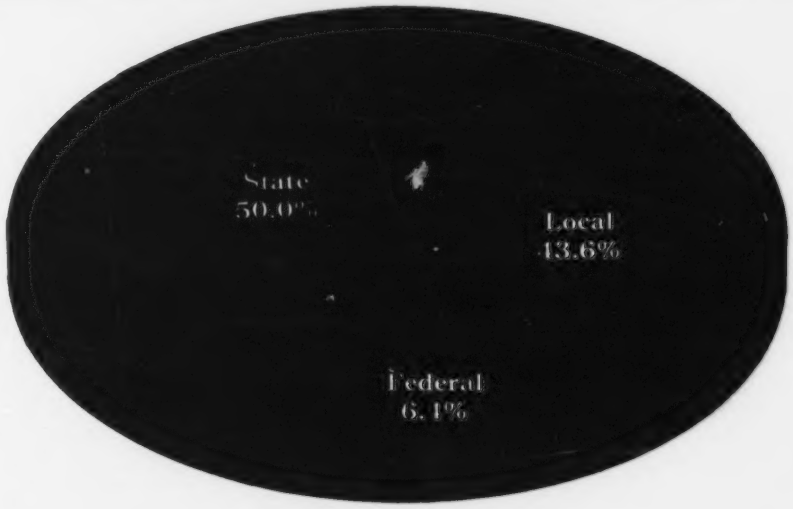
Virtually all of the local revenue shown in Figure 24 is obtained from the local property tax. Schools compete with other governments in the use of the local property tax. This is shown in Figure 25, where the independent school districts, those with taxing power, account for 43.6 percent of property tax collection. Dependent school districts receive a portion of the property tax collection of municipal, county, and township governments, as they are a subordinate activity of these governments.

Over the years, the property tax has served education well. As a source of funding, it is irreplaceable. It currently yields approximately $70 billion to school districts. For this reason, it is important that schools maintain this base of support. To do so requires good assessment practices and a minimum of exemptions. Full market value assessment assures equal treatment among taxpayers and comparable assessment practices among districts. Both contribute to tax fairness and equity. Partial exemptions of property erode the tax base and, when combined with poor assessments, distribute benefits unevenly among districts. This results in some taxpayers having to pay more than their fair share.

Tax Limitations. State-imposed tax rate and tax levy limitation laws restrict school district taxing power in 36 states. Many of these laws were enacted out of understandable frustration with inflation and its effects on property values and, subsequently, on taxes. At a minimum, however, such laws should provide for local

Figure 24

School Revenue Sources: 1988



SOURCE: National Education Association Data Bank.

Figure 25

Local Property Tax Collections: 1986

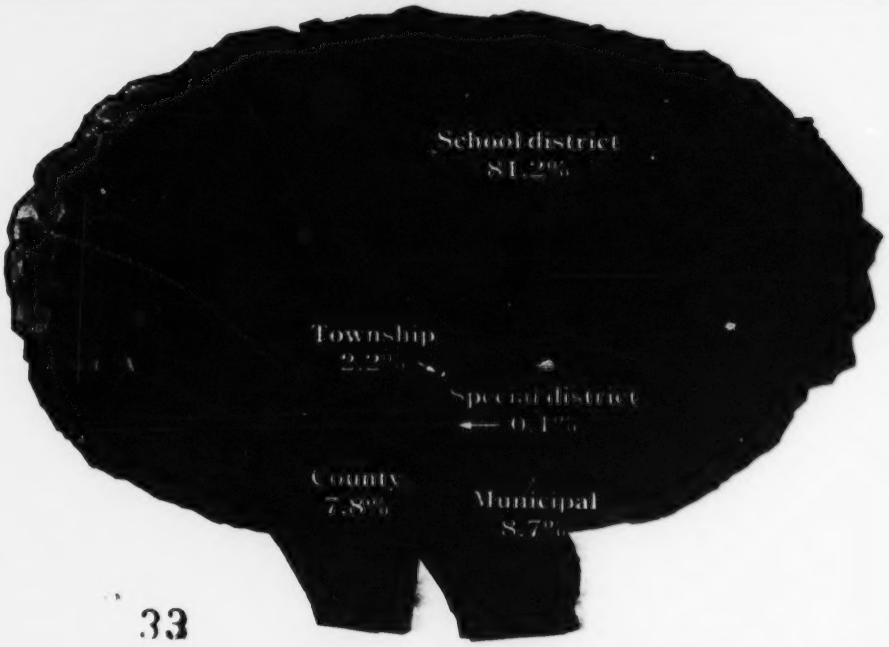
SOURCE: U.S. Department of Commerce, Bureau of the Census, *1982 Census of Government, Vol. 4, No. 5*, 1984.

override when deemed appropriate by the voters. When arbitrary limits prevent school boards and citizens from taxing themselves for better schools, local control is lost, and the principle of keeping government close to the governed is violated.

Independent and Dependent Districts. School districts in most states are fiscally independent. This means that they have authority to levy taxes to support schools. In some states, though, they are fiscally dependent, meaning that they levy no taxes themselves but receive funds from other local governments. Figure 26 shows local expenditures for schools by source. The school district share at 81.2 percent represents fiscally independent districts while the percentages for other local units represent support for schools in districts that are fiscally dependent.

Figure 26

Local Expenditures for Schools: 1982



SOURCE: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism 1988 Edition, Volume II*, 1988. Based on U.S. Census Bureau tape.

FEDERAL SUPPORT OF EDUCATION

The federal government's involvement in elementary and secondary education has for the most part been confined to financial support of specific educational needs as opposed to general financial aid. Its contribution currently is equal to just over 6 percent of all elementary and secondary educational expenditures.

Federal Share of School Support. Historically, the federal share of school support has never reached 10 percent of total school district receipts. Between 1965, with enactment of the Elementary and Secondary Education Act, and 1980, federal support was in the 8 to 9 percent range. That percent declined throughout the 1980s as the competition for federal tax dollars became more intense, and multibillion dollar deficits became the norm. For 1988, federal aid stood at 6.4 percent.

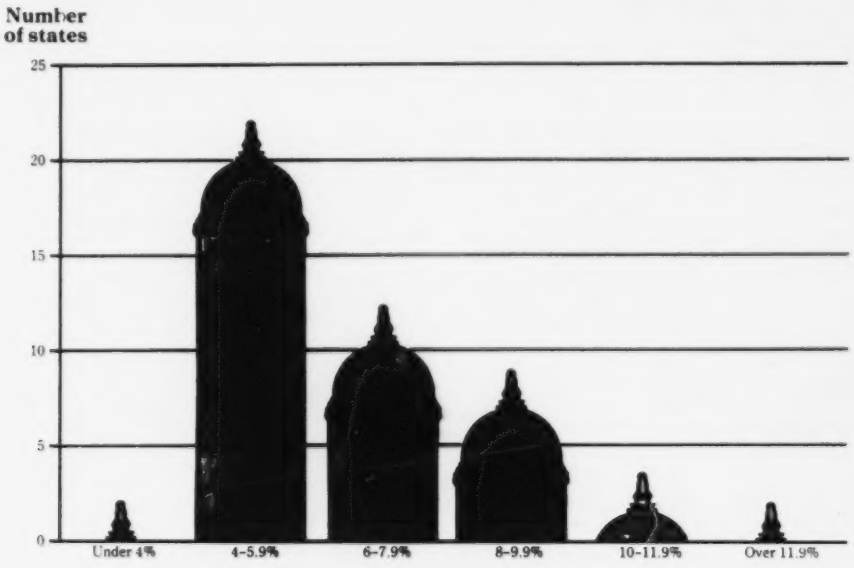
Because federal dollars are targeted to specific student populations, they are not distributed evenly among states. Figure 27 shows the distribution of states according to the percent that federal aid constituted of their revenues. The largest group, containing 22 states, lies within the 4 to 5.9 percent range. Five states received over 10 percent of their revenues through federal aid, and two received less than 4 percent.

Federal Role in Schools. The federal government has provided funds for education whenever it determined that specific needs were not being adequately addressed by the states. Examples include the National Defense Education Act to strengthen mathematics, science, and foreign language skills; the National School Lunch Program; the Vocational Education Act; and the Drug Abuse Prevention Act. Each targeted a specific student group or overall educational need that was determined to be in the national interest.

An expanded federal role is desired by many who believe that only by the infusion of federal funds can equalization among states be achieved. A federal effort to achieve a national level of financial support for all students is deemed consistent with instate equalization obtained through minimum foundation programs. The national interest in both a healthy economy and a strong defense would be served by a program of general education support that could only be achieved through the taxing power of the federal government. Anything less than interstate equalization leaves students in some sections of the country at a disadvantage.

Figure 27

Federal Education Aid to States: 1988



SOURCE: National Education Association Data Bank.

Table 3

Federal Education Programs: 1988

	In thousands
Elementary and secondary education	$ 5,670,627
Grants for disadvantaged	$ 4,338,224
Special programs	1,074,302
Bilingual education	191,751
Indian education	66,350
Assistance in federally affected areas	$ 754,350
Maintenance and operations	$ 685,498
Construction	48,852
Disaster assistance	20,000
Education for the handicapped	$ 3,612,026
State grant programs	$ 1,542,936
Early childhood education	285,640
Special centers, projects, research	99,288
Captioned films and media services	18,003
Personnel training	73,974
Rehabilitation service and research	1,592,185
Vocational education and adult programs	$ 1,042,328
Basic programs	$ 863,282
Consumer and homemaking	32,791
State planning and advisory councils	8,048
Adult education, grants to states	131,362
Other	6,845
Total	$11,079,331

SOURCE: U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 1988*, 1988.

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Federal Education Programs. Federal financial aid distributed to states and school districts during 1988 totaled more than $11 billion. A breakdown of this figure by program area is shown in Table 3. The largest single amount, $4.3 billion, or 39 percent, is listed as grants for disadvantaged. This program, also known as Chapter I of the Education Consolidation and Improvement Act, provides funds to districts for programs for children of low-income families.

Only the funds included as assistance in federally affected areas are general aid funds that may be used at the discretion of the school district. These are primarily monies paid to districts having a large number of children whose parents live on federal properties. Because federal property is exempt from local property taxes, the national government makes these and other payments in lieu of taxes.

In addition to the programs listed in Table 3, the U.S. Department of Agriculture contributed over $4.9 billion in cash and commodities to elementary and secondary schools for various child nutrition programs in 1988.

CONCLUSION

America needs its public schools, and the schools need America's financial support. An investment made in public schools yields dividends to the nation as a whole. Reinvestment of a portion of those dividends in education charts the course for further economic growth. The alternative to such recurrent reinvestment is to restrict educational opportunity and to be satisfied with a no-growth future.

Because education has a lifetime impact that goes beyond school district boundaries and state borders, the quality of each person's education is appropriately the concern of all. For this reason we are called upon to support schools with our local, state, and federal tax dollars. Each level plays a unique role in attaining the twin goals of adequacy and equity.

The goal of adequacy is one of the reasons additional funding is necessary. Today's shortcomings in educational quality become tomorrow's lost opportunities. The equity goal requires that additional financial resources be distributed so as to even out access to educational opportunity among school districts and among states.

Education does not come cheaply, but it is nevertheless a bargain. Aggregate current expenditures for 1989 were nearly $168 billion, but the cost per pupil per day was less than $25. For that sum school districts were expected to provide transportation to school, a fully equipped classroom, qualified teachers, a broad curriculum, teaching supplies and materials, student health and guidance services, school libraries, special education classes, administrative support, and a wide range of extracurricular activities.

The future financial needs of schools are linked to demographics and educational reform. In the coming years, enrollments in public schools will consist of a larger proportion of disadvantaged and non-English speaking youths. Both groups will require greater financial resources if they are to have a fair chance for an economically productive and independent life. As the education reform movement works its way among the states, various financial needs will evidence themselves. Class size reductions for greater individualized instruction, teacher salary improvements to attract and retain the best teachers, curriculum revisions to increase student achievement, and special efforts to increase high school graduation rates all require a substantial investment. To the extent that these needs are met, benefits will accrue both to individuals and to society at large.

APPENDIX A

Current Expenditure Per Pupil: 1988

State	
Alabama	$2,754
Alaska	7,038
Arizona	3,451
Arkansas	2,618
California	3,916
Colorado	4,378
Connecticut	6,396
Delaware	5,138
Florida	4,353
Georgia	3,715
Hawaii	3,859
Idaho	2,778
Illinois	4,285
Indiana	3,616
Iowa	4,159
Kansas	4,274
Kentucky	3,444
Louisiana	3,148
Maine	4,427
Maryland	4,895
Massachusetts	5,466
Michigan	4,306
Minnesota	4,390
Mississippi	2,716
Missouri	3,641
Montana	4,061
Nebraska	3,600
Nevada	3,800
New Hampshire	4,148
New Jersey	6,933
New Mexico	3,880
New York	6,886
North Carolina	3,639
North Dakota	3,390
Ohio	3,852
Oklahoma	3,130
Oregon	4,574
Pennsylvania	5,099
Rhode Island	5,376
South Carolina	3,340
South Dakota	3,173
Tennessee	3,092
Texas	3,722
Utah	2,632
Vermont	4,791
Virginia	4,436
Washington	4,023
West Virginia	3,693
Wisconsin	4,948
Wyoming	5,503
U.S. average	$4,257

SOURCE: National Education Association Data Bank

APPENDIX B

School Revenues By Source: 1988

State	Federal	State	Local
Alabama	12.4%	69.9%	17.7%
Alaska	7.3	67.3	25.3
Arizona	8.1	44.9	47.0
Arkansas	9.0	60.1	30.9
California	7.3	69.4	23.3
Colorado	4.8	38.8	56.3
Connecticut	4.2	42.4	53.4
Delaware	8.2	67.9	23.9
Florida	6.5	53.6	39.9
Georgia	7.1	59.7	33.2
Hawaii	11.4	88.4	0.1
Idaho	7.4	61.6	31.0
Illinois	7.7	36.2	56.1
Indiana	4.0	60.0	36.0
Iowa	5.6	46.1	48.2
Kansas	4.9	43.2	51.9
Kentucky	9.9	70.5	19.6
Louisiana	11.5	54.8	33.7
Maine	6.7	51.1	42.2
Maryland	5.3	39.8	54.9
Massachusetts	4.9	45.1	50.0
Michigan	3.6	35.2	61.2
Minnesota	4.3	56.9	38.9
Mississippi	15.8	55.4	28.8
Missouri	5.6	38.9	55.5
Montana	7.9	49.2	42.8
Nebraska	5.3	26.6	68.2
Nevada	4.3	38.5	57.1
New Hampshire	3.2	7.3	89.6
New Jersey	4.2	42.7	53.1
New Mexico	11.9	76.3	11.8
New York	5.0	43.6	51.3
North Carolina	7.3	63.8	28.9
North Dakota	7.2	51.4	41.4
Ohio	5.2	48.8	46.1
Oklahoma	9.4	62.6	27.9
Oregon	6.3	26.7	67.0
Pennsylvania	4.8	47.1	48.1
Rhode Island	4.2	43.9	51.9
South Carolina	8.4	55.5	36.1
South Dakota	9.0	27.7	63.3
Tennessee	9.6	49.7	40.8
Texas	8.2	44.2	47.6
Utah	5.7	57.2	37.0
Vermont	5.8	38.0	56.2
Virginia	5.7	34.9	59.4
Washington	5.8	73.0	21.2
West Virginia	8.6	63.4	28.0
Wisconsin	4.6	40.2	55.2
Wyoming	4.2	51.6	44.2
U.S. average	6.4	50.0	43.6

SOURCE: National Education Association Data Bank.

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